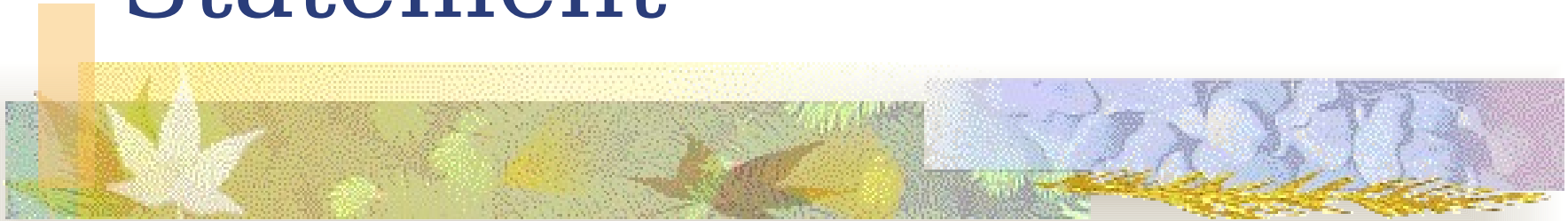


Bank Reconciliation Statement



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The purpose of the bank reconciliation statement

- Due to the timing difference, omissions and errors made by the bank or the firm itself.
- The balance of the bank statement and the bank account in the cash book rarely agree.
- Bank reconciliation statements can be used
- To explain the reasons for the differences and to identify errors and omissions in both documents, so that corrections can be made as soon as



Reasons for differences between the cash book balance and the bank statement balance

1. Uncredited items

They are deposits paid into the bank. These items occurred too close to the cut-off date of the bank statement and so do not appear on the statement. They will appear on the next statement.

Banking made shown in the cash book

But not on the bank statement



2. Unpresented cheques

They are cheques issued by the firm that have not yet been presented to its bank for payment.

3. Standing orders

They are standing instructions from the firm to the bank to make regular payments.

4. Direct debits

They are payments made directly through the bank.

5. Bank charges

They are charges made by the bank to the company for banking services



6. Dishonoured cheques

They are cheques deposited but subsequently returned by the bank due to the failure of the drawer to pay.

7. Credit transfers / direct credits

They are money received from customers directly through the banking system.

8. Interest allowed by the bank

They are interest received for deposits or fixed deposits.



Nature of the cash book and bank statement

Cash Book (bank column only)

Debit represents an increase

Credit represents an decrease

Bank Statement

	Dr	Cr	Balance
	(represents decrease)	(represents increase)	(represents the amount owned to the clients)



Drawing up a bank reconciliation statement

1. To reconcile the Bank statement with the Corrected Cash Books
2. To reconcile the Bank statement with Unadjusted Cash Book



To reconcile the bank statement with corrected cash book

Three steps:

1. Check the bank statement and the cash book
to identify the items which have been omitted.
2. Update the cash book with any omissions and errors made by the firm itself.

e.g. Credit transfers (debit cash book)

Bank interest (debit cash book)

Standing orders / direct debits (credit cash book)

Bank charges (credit cash book)

Dishonoured cheques (credit cash book)

3. Prepare the bank reconciliation



Bank Reconciliation Statement as at

XXXX
\$ \$

Corrected balance in hand as per Cash Book					x
Add Unpresented cheques		x			
Wrong credits by the bank		x	x	_____	_____
		x			
Less Bank deposits not yet entered on Bank Statement					x
Wrong debits by the bank		x	x	_____	_____
		x			
					—

Example 1



Question:

Cash book(Bank column)

1996		1996			1996
Dec 1	Bal b/f	2800		K Wong	1600
3	W Lee	1000		C Kwok	700
10	T Cheung	2000		M Tang	100
30	S Sin	1400		Bal c/f	4800
Uncredited items		7200		Unpresented cheque	7200

Bank Statement

1996			Dr	Cr
Balance				
			\$	\$
Dec 1	Balance	2800		
3	Cheque deposit	3800		1000
8	Cheque 763	2200	1600	
	Bank charges			
10	Cheque deposit	2000		
	Direct debit			
11	Dishonoured cheque	2200	2000	
11	Cheque deposit	2000		

Answer:

Cash Book (Bank

1996	\$	Column	1996	\$
Dec 31 Balance b/f	4,800		Dec 31 T. Cheung -	
31 Commission Rec.	300		Dishonoured cheque	2,000
31 Bank Interest	50		31 Bank charges	30
			31 Rent	250
			31 Balance c/f	<u>2870</u>
	<u>5,150</u>			5,150

Identify the items which have been omitted in the cash book



Bank Reconciliation Statement as at 31 Dec 1996

Corrected balance in hand as per Cash Book	2870	
Add Unpresented cheques	100	
	<u> </u>	
	2970	
Less Bank deposits not yet entered on Bank Statement		<u> </u> 1400
Balance in hand as per Bank Statement	1570	

- Only adjusted caused by timing difference



To reconcile the bank statement with the Unadjusted cash book

Two steps :

1. Check the bank statement and the cash book to identify the items which have been omitted.
2. Prepare the bank reconciliation statement.

Begin with the unadjusted cash book balance and end with the bank statement balance

Bank Reconciliation Statement as at

	\$	\$	XXXX	
Corrected balance in hand as per Cash Book				x
Add Credit transfers				x
Amount received on Bank statement				
Bank interest				x
But not on bank statement				
Unpresented cheques				x
Timing difference				
Wrong credits by the bank				x
				x
Less Standing orders / direct debits				x
Bank charges				x
Dishonoured cheques				x
Bank deposits not yet entered on Bank Statement				x
Wrong debits by the bank				x
Balance in hand as per Bank Statement				x

Example 2



The facts are the same as Example 1, but the cash book was not updated.

Answer:

Bank Reconciliation Statement as at

31 Dec 1996

Unadjusted balance in hand as per Cash Book

4,800

Add Credit transfers

300

Bank interest

50

Unpresented cheques

100

450

5,250

Less Bank charges

30

Dishonoured cheques

2,000

Bank deposits not yet entered on Bank Statement

1,400

Direct debit

250

3,680

1,570



Other Issues

A. Post-dated cheque

- ✂ It is a cheque which has not yet matured within the current accounting period.

Accounting treatment

- ✂ The cheque should be held by the cashier and no entry should be made until the cheque becomes mature.
- ✂ If a post-dated cheque has been entered in the cash book, make correcting entries.

Dr Debtors	With the amount of the post-dated cheque
Cr Bank	



B. Stale cheque

- ✂ It is a cheque which has been drawn for more than 6 months but has not yet gone through the bank of the drawee.

Accounting treatment:

Dr Bank Cr Creditor	With the amount of the state cheque
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- c. Errors made by the bank
- i. Errors corrected within the current accounting period
 - ii. Errors not corrected within the current accounting period



errors corrected within the current
accounting period

As the error has been corrected by the bank within
current accounting period, no adjustment is needed

Example 3 :

Bank Statement

	Dr	Cr	Balance
1996		\$	\$
Dec 1 Balance			240
1 Cheque 54321	520	280 O/D	
2 Credit	2,000	1,720	
8 Cheque 54232	1,600	120	
20 Cheque 10674	300	180 O/D	
20 Adjstment	No adjustment should be made		300 120

✂ Errors not corrected within the current accounting period

Example 4 :

- ✂ An amount of \$1,000 which should be credited into the owner's personal account was wrongly credited by the bank to the company's bank account. The balance of the cash book is \$4,000 and the balance of the bank statement was \$5,000 at 31 Dec 1996



Answer:

Bank Reconciliation Statement as at
31 Dec 1996

Balance in hand as per Cash Book	4,000
Add wrong credit by the bank	<u>1,000</u>
	<u>5,000</u>

it is an error made by the bank, no adjustment is needed in
company's cash book

D. Different opening balances of the cash book and the bank statement

The following steps should be taken:

1. Reconcile the opening cash book balance with the opening bank statement balance.
2. The adjusting items for the opening balances should not appear in the bank reconciliation statement of the current period.
3. Prepare the bank reconciliation statement

Example 5



Question :

Cash book(Bank column)

1996		1996	\$		\$
Dec 1	Bal b/f	10620		Bank charges(Nov)	500
2	C Lee	28028		K Tong-742	1000
8	P Wong	15329		C Au-743	1400
31	T Kong	13030		China Ltd-744	2100
Uncredited item		31		Bal c/f	11238
		7200			7200

Unpresented cheque

Bank Statement

1996			Dr	Cr
Balance				
Dec 1	Balance	11500		
2	Credit	12500		1000
2	Credit			
2800		15300		
3	736		2400	
	12900			
8	Credit			

Adjusting items for opening balance

Answer

Step 1

Bank Reconciliation Statement as at 1

\$ Dec 1996

Balance in hand as per Cash Book		10,600
Add	Unpresented cheque	2400
		<u>13,000</u>
Less	uncredited item	1,000
	Bank charges	500
		<u>1,500</u>
Balance in hand as per Bank Statement		<u>11,500</u>

The adjusting items for the opening balance should not appear in the bank reconciliation statement as at 31 Dec 1996

Step 2

Cash Book (Bank

1996	\$	Column	1996	\$
Dec 31 Balance b/f	11,238		Dec 31 Rent	4,000
			31 Service charges	200
			31 Balance c/d	7038
	<u>11,238</u>			<u>11,238</u>

Step 3

Bank Reconciliation Statement as at 31 Dec 1996

Corrected balance as per Cash Book	7,038
Add Unpresented cheques (\$1,400+\$2,100)	<u>3,500</u>
	10,538
Less Uncredited item	1,300
Balance in hand as per Bank Statement	<u><u>9,238</u></u>



E. Bank overdrafts

When there is a bank overdraft, the presentation of the bank reconciliation statement can be:

- a. the same as those needed for a debit balance, but begins with a negative figure, or
- b. the opposite of those needed for a debit balance.

Example 6



Question :

Cash book(Bank column)

1996		\$	1996		\$
Dec 1	Bal b/f	500			
6	Cash	50	Dec 8	A Tong	
13	C Lee	200	300		
31	R Wong	390	16	T Chan	
31	Uncredited Bal c/d	150	500	Unpresented cheque	
		1290	28	Textile Ltd	1290
			490		

1996		Bank Statement		Dr	Cr
Balance		1997			
Dec 1	Balance	Jan 1	150	\$ Bal b/d	\$
	500				
6	Cash				50
	550				
8	A Tong			300	
	250				
13	C Lee				200
	450				

Answer:

Cash Book (Bank

1996	\$	Column	1996	\$
Dec 31 Balance c/f		460	Dec 31 Balance b/f	150
			31 United trust	270
			31 Bank charges	40
		460		460

Bank Reconciliation Statement as at
31 Dec 1996

Corrected balance as per Cash Book (Overdraft)	(460)
Add Unpresented cheques	<u>490</u>
	30
Less Uncredited item	<u>390</u>
Balance as per Bank Statement (overdraft)	<u>(360)</u>